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In re:

PROMESA

Title III

THE FINANCIAL OVERSIGHT AND
MANAGEMENT BOARD FOR PUERTO RICO,

as representative of

No. 17 BK 3283-LTS

THE COMMONWEALTH OF PUERTO RICO, *et al.*, (Jointly Administered)

Debtors.¹

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**STATUS REPORT OF FINANCIAL OVERSIGHT AND MANAGEMENT
BOARD IN CONNECTION WITH JUNE 3, 2020 OMNIBUS HEARING**

To the Honorable United States District Court Judge Laura Taylor Swain:

The Commonwealth of Puerto Rico (the “Commonwealth”), the Puerto Rico Highways and Transportation Authority (“HTA”), the Employees Retirement System of the Government of the Commonwealth of Puerto Rico (“ERS”), the Puerto Rico Electric Power Authority (“PREPA”), and the Puerto Rico Public Buildings Authority (“PBA,” and together with the Commonwealth, HTA, ERS, and PREPA, the “Debtors”), by and through the Financial Oversight and Management Board for Puerto Rico (the “Oversight Board”), as representative of the Debtors pursuant to section 315(b) of the Puerto Rico Oversight, Management, and Economic Stability Act (“PROMESA”), respectfully submit this Status Report in connection with the June 3, 2020 omnibus hearing and in response to this Court’s order, dated May 26, 2020 [ECF No. 13220].

¹ The Debtors in these Title III Cases, along with each Debtor’s respective Title III case number and the last four (4) digits of each Debtor’s federal tax identification number, as applicable, are the (i) Commonwealth of Puerto Rico (“Commonwealth”) (Bankruptcy Case No. 17-BK-3283- LTS) (Last Four Digits of Federal Tax ID: 3481); (ii) Puerto Rico Sales Tax Financing Corporation (“COFINA”) (Bankruptcy Case No. 17-BK-3284-LTS) (Last Four Digits of Federal Tax ID: 8474); (iii) Puerto Rico Highways and Transportation Authority (“HTA”) (Bankruptcy Case No. 17-BK-3567-LTS) (Last Four Digits of Federal Tax ID: 3808); (iv) Employees Retirement System of the Government of the Commonwealth of Puerto Rico (“ERS”) (Bankruptcy Case No. 17-BK-3566-LTS) (Last Four Digits of Federal Tax ID: 9686); (v) Puerto Rico Electric Power Authority (“PREPA”) (Bankruptcy Case No. 17-BK-4780-LTS) (Last Four Digits of Federal Tax ID: 3747); and (vi) Puerto Rico Public Buildings Authority (“PBA”) (Bankruptcy Case No. 19-BK-5523-LTS) (Last Four Digits of Federal Tax ID: 3801) (Title III case numbers are listed as Bankruptcy Case numbers due to software limitations).

I. Supreme Court Decision Regarding Appointments Clause

1. The Oversight Board is pleased to report that on June 1, 2020, the United States Supreme Court rendered its decision in *Financial Oversight and Management Board for Puerto Rico v. Aurelius Investment, LLC, et al.*, No. 18-1334 (June 1, 2020) (Slip Op.), vindicating this Court's decision in *In re Commonwealth of Puerto Rico*, Case No. 17-3283 (D.P.R. July 3, 2018). The Supreme Court reversed the decision of the United States Court of Appeals for the First Circuit and unanimously held the selection of the Oversight Board members pursuant to PROMESA did not violate the Appointments Clause.

II. General Status and Activities of the Oversight Board

2. The Oversight Board continues to believe the primary focus of the government of Puerto Rico (the "Government") and the Oversight Board should be directed to protecting the health and welfare of the people of Puerto Rico from the COVID-19 virus, while also slowly and prudently reopening critical businesses as the pandemic subsides and providing the people of Puerto Rico with ongoing reasonable, comprehensive, and sustainable solutions. To that end, in recent months, the Oversight Board has created the \$787 million Emergency Measure Support Package, consisting of (i) \$500 million authorized as an incremental appropriation for the fiscal year 2020 General Fund budget, (ii) a \$157 million reapportionment within the current fiscal year 2020 Commonwealth General Fund budget, and (iii) \$131 million of federal funds. The Emergency Measure Support Package is in addition to the \$160 million of Puerto Rico's Emergency Reserve Fund which the Oversight Board previously authorized. These emergency reserve financings were available because the Oversight Board has imposed and pursued sound budgeting practices and fiscal plans for the last three years. The Oversight Board has worked

closely with the Government to define how to spend this nearly \$1 billion in emergency funding, with a clear focus on responding to and managing the ongoing pandemic.

3. Last week, the Oversight Board presented and certified the latest Fiscal Plan for the Commonwealth, with a key focus on (i) responses to COVID-19, (ii) changes in fiscal projections as a result of COVID-19 and the numerous earthquakes that have occurred in recent months, and (iii) a one year delay in the implementation of certain structural reforms and budgetary matters to permit the Government to concentrate on managing COVID-19 and its effects on the Puerto Rico economy. In the coming month, the Oversight Board will work to review and evaluate fiscal plans and budgets for almost twenty additional entities.

4. In addition, during the past month, due to its strong commitment to addressing, planning, acting, and budgeting for the global health crisis' impact on Puerto Rico, the Oversight Board moved to adjourn consideration of the proposed Commonwealth-ERS-PBA plan of adjustment and related disclosure statement, and to adjourn all hearings and briefing deadlines related to the PREPA restructuring support agreement. The Oversight Board continues to collaborate with the Government to address the near and long-term economic effects of the pandemic and to determine the ramifications upon the filed plan of adjustment.

III. General Status of Relations Among the Oversight Board and Commonwealth and Federal Governments

5. As noted above, the Oversight Board agrees with Governor Wanda Vázquez Garced that the health, safety, and economic welfare of the people of Puerto Rico must be the number one priority. Consistent with this objective, the Oversight Board has accommodated some of the Government's outstanding obligations, by granting extensions pertaining to fiscal plans and budgets for the Government and certain governmental entities, and acceded to certain requests for additional financing being available or reapportioned. Similarly, to ease the burden on

municipalities, the Oversight Board and the Government have agreed on measures to assist Puerto Rico's municipalities in light of the nullification of Law 29 and remain in discussions regarding potential additional assistance. The Oversight Board has also approved policies such as the limited exemption of prepared foods and port sales from the sales and use tax, and the waiver of penalties on noncompliance with twice-monthly sales and use tax reporting and remittance requirements, as well as missed payments on estimated income tax bills.

6. As for the nearly \$1 billion in emergency financial authorizations described above, the Oversight Board greatly encourages the Government to distribute the funds urgently to ensure the support reaches those who need the funds as expeditiously as possible. Along these lines, the Oversight Board granted a cash advance request from the Puerto Rico Department of Treasury for up to \$400 million to accelerate and expedite the distribution of individual transfers provided by the CARES Act.

IV. PRIDCO's RSA and Anticipated Title VI Filing

7. In the Oversight Board's previous status report, the Oversight Board informed the Court that its professionals were working with the Government and professionals of the Puerto Rico Fiscal Agency and Financial Advisory Authority ("AAFAF") regarding a revised Puerto Rico Industrial Development Company ("PRIDCO") fiscal plan (separate from the Commonwealth's fiscal plan) and a review of PRIDCO's financial condition in light of the COVID-19 pandemic. Such process remains ongoing. The Oversight Board has since issued a process letter to the Government specifying the date the Oversight Board intends to certify a PRIDCO fiscal plan and dates on which the Oversight Board and the Government will consult on the preparation of a fiscal year 2021 budget for PRIDCO.

8. PRIDCO has public bonds in the outstanding principal amount of approximately \$150 million and \$15 million in interest accrued thereon. AAFAF previously informed the Court and the Oversight Board that AAFAF had entered into a restructuring support agreement (an “RSA”) with over two-thirds of those bondholders. The Oversight Board has not been asked to approve the RSA as a Qualifying Modification. Once a fiscal plan for PRIDCO has been certified and a request to approve a Qualifying Modification has been submitted formally to the Oversight Board, the Oversight Board will be in a position to determine whether the proposed RSA is consistent with PROMESA and the fiscal plan and in the best interest of the Commonwealth and PRIDCO. Given the potential effect of the COVID-19 pandemic on the Commonwealth economy and PRIDCO’s fiscal plan, at this point, it is too speculative to suggest when the parties will commence a Title VI Qualifying Modification for PRIDCO.

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Dated: June 2, 2020
San Juan, Puerto Rico

Respectfully submitted,

/s/ Martin J. Bienenstock

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